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MMARS Policy: Contracts

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Contracts – Encumbrance Correction

Executive Summary

The Encumbrance Correction Transactions (CEC/GAEC) allow a Department to correct (re-instate) encumbrances that have been liquidated by a Payment Request (PRC/GAX/EA) in error and initiate a recovery of that overpayment from the vendor. The need to reinstate funds to the encumbrance may be due to referencing the wrong accounting line, overpayment to a vendor or closing a line in error by entering a final indicator on the payment transaction. Specific year-end policies may require alternative processing to align/correct encumbrance/payment Transactions. The Department submitting the CEC or GAEC is responsible for complying with this and other applicable policies and procedures as appropriate.

In addition to the policies in this Chapter, departments are also responsible for the policies in [Contracts - State Finance Law and General Requirements](#) and any other applicable [contract and procurement policies](#) issued by CTR and OSD under the [Procurement Information Center \(PIC\)](#).

Policy

The Encumbrance Correction Transaction (CEC/GAEC) should only be used if the Payment Request transaction cannot be modified to correct an error. A Payment Request cannot be modified once it has been disbursed and/or if it references an Automatic Disbursement (AD). For example, if a Department processes a PRC referencing the wrong encumbrance accounting line and the funds were disbursed, the Department would be required to process a CEC to correct the encumbrance accounting line. Department personnel are responsible for the prompt reconciliation of contracts/payments and, therefore, the prompt submission of any CEC or GAEC and the associated ER or EX transaction, if applicable. The two transaction options that should be utilized to correct the error are: the Commodity Encumbrance

Correction Transaction (CEC) and the General Accounting Encumbrance Correction Transaction (GAEC). All CEC's and GAEC's must be processed in accordance with the cash cutoff instructions in the annual Close/Open Book to restore the funds to correct encumbrance line and avoid posting cash in the wrong fiscal year.

Departments are required to select the **correct "Event Type"** and **correct "Encumbrance Transaction Code"** to increase or decrease the appropriate accounting line amount of an encumbrance. Refer to the following chart to determine whether you would use the CEC or GAEC to correct an encumbrance.

Encumbrance Transaction Code	Encumbrance Correction Transaction Code
<i>CT</i>	<i>CEC</i>
<i>PC</i>	<i>CEC</i>
<i>RPO*</i>	<i>CEC</i>
<i>GAE</i>	<i>GAEC</i>
<i>EAV</i>	<i>GAEC</i>

*Note: A CEC should only be used with an RPO in rare circumstances. Departments must contact their department liaison in the Contract/Tax Management Unit for guidance before attempting to use the CEC with the RPO.

There are three valid event types associated with the encumbrance correction transactions; the event types are PR20, PR21 and PR22.

Event Type	Title	Encumbrance Accounting line effect
<i>PR20</i>	<i>Encumbrance Correction</i>	<i>Restores money to the accounting line</i>
<i>PR21</i>	<i>Encumbrance Liquidation</i>	<i>Liquidates money from the accounting line</i>
<i>PR22</i>	<i>Encumbrance Correction & Credit Memo*</i>	<i>Restores money to the accounting line and creates a credit memo* in MMARS that offsets a future payment to a vendor</i>

*Note: The credit memo will only offset a payment to a vendor issued by that same department and within one payment disbursement category. For example, if department A creates a credit memo for vendor X in disbursement category 100, the next payment request to vendor X from department A within disbursement category 100 will be offset. The vendor's payment will not be offset by any other

department's payment request to vendor X or by a payment request to vendor X referencing a different disbursement category.

Allowable Encumbrance Correction Scenarios:

1. A Payment Request referenced the wrong accounting line on the encumbrance but paid the correct amount

If the payment has been disbursed, use the CEC or GAEC to correct the error. Use event type PR20 to restore the correct amount to the accounting line referenced in error and use event type PR21 to liquidate funds from the accounting line that should have been referenced. An expenditure correction (EX) may also need to be processed if the accounting information within the fund accounting section is not the same for each accounting line. See [Expenditure Correction Policy](#).

2. A Payment Request with multiple accounting lines, over-referenced an accounting line(s) and under-referenced an accounting line(s) but paid the correct amount

If the payment has been disbursed, use the CEC or GAEC to correct the error. Use event type PR20 to restore the correct amount to the accounting line that was over-referenced and use event type PR21 to liquidate funds from the accounting line that was under-referenced. An expenditure correction (EX) may also need to be processed if the accounting information within the fund accounting section is not the same for each accounting line.

3. A Payment Request incorrectly closed a referenced encumbrance accounting line to final (Zero Dollar Correction)

If the payment has been disbursed, use the CEC or GAEC to correct the error. Use event type PR20 and **let the transaction amount fields default to zero**. This will open the closed accounting line for the amount that was not expended on the encumbrance.

4. Overpayment to a vendor

- If an overpayment has been made to a vendor, a department is required to have the vendor return the overpaid amount. In cases where the department does not believe there is a high likelihood of future payment to the vendor, a check should be received back from the vendor for the overpayment. Process an expenditure refund (ER) to restore the money back to the account from which the expenditure was made. Once the payment has been received and credited back to the account, the CEC or GAEC may be used to correct the

encumbrance with event type PR20 to restore money to the accounting line that was over-referenced.

- In the situation where an overpayment is made to a vendor that the department will make additional payments to the vendor in the current fiscal year, it may be prudent to use a CEC/GAEC Event Type PR22, credit memo. A CEC or GAEC using Event Type PR22 will not go to workflow in order to be evaluated for offset in the disbursement cycle.
- In the event an overpayment is made to a vendor that the department will NOT continue to receive goods and services from in the fiscal year, and the vendor has refused or has not made reimbursement for any reason, the department should immediately contact the CTR Revenue Bureau for guidance about placing this amount on intercept as an accounts receivable.

Processing the CEC/GAEC with event type PR20 and PR21 - Transactions will workflow to CTR

Comments Field - Department users authorized to submit CEC/GAEC transactions must enter the justification for the request into the Comments Field in MMARS. The "Comments" field allows for 1500 characters, which should be sufficient to provide an explanation for the need to process the CEC or GAEC.

The Comments field can be accessed by:

1. Clicking on Document Comments in the secondary navigation bar on the left-hand side of the screen. Once the Document Comments screen appears, the user should;
2. Click on the Insert action, which will populate the doc ID of the CEC or GAEC into the Comment Field;
3. Enter CEC or GAEC into the Subject Field;
4. Enter a complete justification for processing the correction - In circumstances where funds have been returned by the vendor and an ER transaction has been processed, include the ER Doc ID in the Comments field. This will allow the Comptroller's Contract /Tax Management Unit to validate that an ER has been processed and funds have been deposited into the bank. **Note: The CEC or GAEC should not be submitted until the ER is processed to final);**
5. Click Save after completing your justification.

Departments must retain copies of all relevant backup in the procurement/contract file for future reference and audit trail.

Workflow

Encumbrance correction transactions using event type PR20 and PR21 will go to a pending status requiring review and processing by the Comptroller's Contract/Tax Management Unit.

Encumbrance Correction transactions using event type PR22 will not go to pending status.

Rejected Transactions - In the event that the CEC/GAEC is rejected by CTR for insufficient explanation or erroneous data, CTR will enter a reason for the reject in the comments field. CTR will also e-mail the department MMARS Liaison to inform the department that the transaction is in reject status. The department should review the document comments, correct the CEC or GAEC and resubmit the transaction back to a pending phase in MMARS for CTR to process.

Accounts Payable Period

The only encumbrance corrections processed during this period are \$0.0 dollar CEC/GAEC's to reopen a closed accounting line that still has a remaining unspent balance.

If there is an overpayment to a vendor, an encumbrance correction transaction may NOT be processed during the accounts payable period. The money should be collected and a CR must be processed but the encumbrance will not be corrected. This will ensure that money is not posted to a lapsed line on a non-continuing account. To avoid this problem, all CEC's and GAEC's must be processed by the cash cut off of the fiscal year. (Refer to the Closing/Opening Book for exact dates.) After the accounts payable period as ended, a CEC/GAEC cannot be processed to reopen a prior budget fiscal year accounting line.

Internal Controls:

The CEC and GAEC transactions should be initiated only after the Department has determined, as part of the contract/payment reconciliation effort, that there was an error on the previous payment/s, which require correction. It is the responsibility of the Department CFO, or the appropriate Department Head or authorized designee, to validate the appropriateness of the correction and to ensure that the request for the correction is consistent with the policies of the Comptroller and state finance law. Furthermore, in determining that a correction is necessary, the Department should also determine why the original transaction was entered incorrectly and take the steps necessary to prevent a recurrence.

Information Sources

- Related Policies:
 - [Key State Finance Law Compliance Appointments and Responsibilities](#)
 - [State Finance Law and General Contract Requirements](#)
 - [Department Head Signature Authorization and Electronic Signature for MMARS Documents](#)
 - [Accounts Payable Policies](#)
 - [Records Management Policies](#)
 - [OSD Procurement Information Center \(PIC\)](#)
 - [Goods and Services](#)
 - [Delegation of MMARS Document Processing and Quality Assurance](#)
 - [Expenditure Correction Policy](#)

- Legal Authority –
 - [Expenditure Classification Handbook](#);
 - [M.G.L. c. 7A](#) (Office of the Comptroller); [M.G.L. c. 29](#) (State Finance Law)
 - [M.G.L. c. 110F](#) (Uniform Electronic Transactions Act); [M.G.L. c. 30, § 65](#) (Legal Services);
 - [M.G.L. c. 29, § 29D](#) (Debt Collection); [M.G.L. c. 29, § 29E](#) (Revenue Maximization);
 - [M.G.L. c. 30, § 27](#) (Revenue Receipt); [M.G.L. c. 10, § 17B](#) (Revenue Receipt); Massachusetts Constitution [Article LXIII Section 1](#) (Revenue Receipt);
 - [M.G.L. c. 7, § 22](#) (OSD – Commodities); [M.G.L. c. 30, § 51](#); (OSD – Services) [M.G.L. c. 30, §. 52](#); (OSD – Services)
 - [M.G.L. c. 29, §. 29A](#) (Consultants) (Level III – Executive only);
 - [M.G.L. c. 29, §. 29B](#) (Human/Social Services) (Level III - Executive only)
 - [M.G.L. c. 15A](#) and [M.G.L. c. 73](#) (state and community colleges);
 - [M.G.L. c. 75](#) (UMASS); General or special laws governing expenditures;
 - [Massachusetts Executive Orders](#) (Level III – Executive Only);
 - [Administrative Bulletins](#)(Level III – Executive Only);
 - [Comptroller regulations](#) (815 CMR 2.00 10.00);
 - [M.G.L. c. 29, § 66](#) (State Finance Law Violations)

- Attachments –
 - Contacts - [CTR Help Desk](#)

MMARS HELPLINE: **617-973-2468**

REVISIONS:

November 1, 2006 – Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.

October 13, 2006: Policy updated to reflect use of event type PR22 and to clarify the comment field requirements, workflow process and accounts payable period restrictions.

April 28, 2006: Policy updated to reflect use of “comments” field to identify supporting reasons for the correction document and replacing the need for paper back up documentation to be submitted to CTR for workflow review and processing.